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FISCAL IMPACT STATEMENT

LS 7825 **NOTE PREPARED:** May 5, 2005
BILL NUMBER: SB 327 **BILL AMENDED:** Apr 28, 2005

SUBJECT: Property Tax.

FIRST AUTHOR: Sen. Hume **BILL STATUS:** Enrolled
FIRST SPONSOR: Rep. Espich

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: *General Reassessment:* This bill delays the next general reassessment of real property by two years and requires general reassessments every five years thereafter.

Annual Assessment Adjustments: The bill delays until 2006 implementation of annual adjustments of real property tax assessments. It amends the factors to be included in the annual adjustment rule of the Department of Local Government Finance (DLGF). The bill allows assessors to employ professional appraisers to assist with annual adjustments. It requires the DLGF to: (1) Review and certify annual adjustments; (2) Establish local deadlines in the determination of annual adjustments; (3) Provide training to assessors and county auditors in the verification of sales; and (4) Approve a determination by assessors to not employ a professional appraiser for a general reassessment.

Agricultural Land Base Rate: This bill directs the DLGF to adjust its guidelines used to determine the annual adjustment for agricultural land. It sets an agricultural land base rate of $880 per acre for property tax assessments in 2005 and 2006.

Property Tax Management System: The bill requires the DLGF to adopt rules for the establishment of a statewide uniform and common property tax management system.

State Takeover of Assessment Duties: This bill allows the DLGF to take over local assessment, reassessment, or annual adjustment activities after giving at least 60 days notice if it determines that the activities are not being performed properly. It requires payment for state conducted assessment or reassessment activities from the county property reassessment fund and establishes a schedule of levies for that fund.

Sales Disclosure Forms: The bill renames the Assessment Training Fund the Assessment Training and Administration Fund, extends for six years the $10 sales disclosure form filing fee, requires deposit of 40% of the revenue from the fee in that fund instead of the state General Fund, and allows the Indiana Board of Tax Review (IBTR) to use money in the fund to conduct appeal activities. It requires additional information on the sales disclosure form. It also applies sales disclosure requirements to property exempt from property taxes.

PTRF Funds Withheld: This bill directs the Department of State Revenue to withhold State Property Tax Replacement Fund (PTRF) distributions to counties for various reasons.

Taxpayer Representatives: The bill prohibits an appraiser or a technical advisor that contracts with a township or county from representing taxpayers in the county, but allows representation with respect to an issue of a taxpayer after the contract term if the appraiser or technical advisor was not directly involved with the issue of the taxpayer while under contract.

Property Tax Exemptions: This bill authorizes a refund of property taxes paid by an exempt sorority that meets certain criteria. It authorizes a nonprofit youth soccer organization to claim retroactive property tax exemptions and refunds for property taxes paid in 2003 and 2004. The bill authorizes certain religious institutions to claim missed property tax exemptions retroactively. It also authorizes retroactive property tax exemption for certain nonprofit entities established for the purpose of retaining and preserving land and water for their natural characteristics.

Assessment Registration Notice: The bill allows the filing of an assessment registration notice with the county assessor or the area plan commission.

Integrated Steel Mill Equipment Property Tax Valuation. This bill provides that special integrated steel mill equipment property tax valuation applies only if the mill produces steel in a blast furnace in Indiana.

Certification of Computer Specification Standards: The bill provides that the DLGF does not prescribe computer specification standards for the certification of computer operating systems.

School Corporation RDF Loan Repayment: This bill allows a school corporation to repay a Rainy Day Fund loan from the school corporation's debt service fund.

County Land Valuation Commission. The bill allows the county assessor and the township assessors in the county to vote to abolish the county land valuation commission.

Property Tax Assessment Board of Appeals. This bill provides that the term of a member of the property tax assessment board of appeals is one year.

Hearings on Appeals of Budgets, Rates, and Levies: The bill adjusts requirements for notice by the DLGF to taxpayers objecting to local budgets and levies.

Property Tax Abatements. This bill establishes a procedure for resolution and appeal of property tax abatements.

DLGF Local Budget Review: The bill requires the DLGF to conduct its review of local government budgets by fund, except for budgets for school and library capital projects funds.

Effective Date: January 1, 2004 (Retroactive); Upon passage; July 1, 2005.

Explanation of State Expenditures: *Property Tax Management System:* Under this provision, the DLGF would adopt rules before July 1, 2006, to establish a uniform and common property tax management system that integrates mass appraisal, county auditor, and county treasurer systems. The system would replace the current systems that serve these functions. The rule would contain a schedule for implementation of the system.

The DLGF would appoint an advisory committee to assist in the formulation of the rules. The DLGF would determine the number of members of the committee, which must include at least one township assessor, one county assessor, and one county auditor. All members of the committee would be entitled to reimbursement for traveling expenses and other actual expenses.

The DLGF would report an estimated cost to implementation the system to the State Budget Committee.

According to the DLGF, the Department would need two additional full-time professional staff in order to implement this proposal. The estimated additional personnel expense for salary, fringe benefits, and indirect costs is about $100,000 per year.

DLGF Takeover of Assessment: This bill would allow the DLGF to order a state-conducted assessment or reassessment if the DLGF determines through periodic inspections that a general reassessment or other assessment activities, whether in a reassessment year or not, are not being properly conducted.

If the DLGF orders a state-conducted reassessment, the DLGF must assume the duties of the county's reassessment officials. Before assuming the duties, the DLGF must transmit a copy of the order requiring a state-conducted reassessment to the county's assessment officials, the county fiscal body, the county auditor, and the county treasurer. Notice of the DLGF's actions must be published in a newspaper of general circulation in the county. However, the DLGF is not required to conduct a public hearing.

The assessment or reassessment duties of an assessment official in the county would be limited to providing the DLGF or its contractor with support and information. Township and county officials must make available all data, records, maps, parcel record cards, forms, computer software systems, computer hardware systems, and other information related to the assessment or reassessment of real property in the county. The information must be provided at no cost to the DLGF.

The DLGF may enter into a contract with a professional appraising firm to conduct an assessment or a reassessment. If a county or township has already entered into a contract with a professional appraising firm to conduct the reassessment, the contract must be treated as a contract of the DLGF. After receiving the report of AVs from the appraisal firm acting under a contract, the DLGF must give notice to the taxpayer and the county assessor, by mail, of the amount of the assessment or reassessment. The notice is subject to appeal by the taxpayer and must include the taxpayer's rights. The DLGF must forward a bill for service provided under contract to the county auditor. The Commissioner of the Indiana Department of Administration, the Director of the Budget Agency, and the Attorney General have seven days to review and act on a contract of the Department.

A contractor may notify the DLGF if a county fails to pay the bill. The DLGF must verify the accuracy of the contractor's assertion and provide to the Treasurer of State the DLGF's approval of the contractor's bill. Upon receipt, the Treasurer of State must pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund (PTRF) or distribution of admissions taxes or wagering taxes. Money from the PTRF must be withheld first and then from all other sources

If the DLGF or the contractor find that the land values determined for the county do not reflect the true tax value of land, the DLGF or the contractor must determine land values. The DLGF or the contractor must notify the county's reassessment officials of the land values.

The DLGF may, in a contract amendment or an additional contract, require the contractor to represent the DLGF in appeals and to afford the taxpayer an opportunity to attend an informal hearing. After the hearing, the contractor would forward recommendations pertaining to assessment changes to the DLGF. A taxpayer must initiate the informal hearing by notifying the DLGF not later than 45 days after the DLGF gives notice to the taxpayers of the amount of the reassessment. The DLGF must send the results of the hearing to the taxpayer, the county auditor, the county assessor, and the township assessor. If the DLGF does not send the notice within 270 days, the DLGF may not change the amount of the assessment or reassessment and the taxpayer may appeal. The DLGF may adopt rules to implement the above provisions.

The overall impact of the above provisions is indeterminable and will depend on the number of counties for which a state-conducted assessment or reassessment is ordered.

Indiana Board of Tax Review: The IBTR would be permitted, under the bill, to contract with, appoint, or designate licensed appraisers, attorneys, level II assessor-appraisers, IBTR administrative law judges, or other qualified individuals to serve as special masters to conduct hearings on appeals filed by taxpayers in a county under a state-assessment order. The IBTR would be permitted to make final determinations without additional hearings by the board. Compensation for the contractors would be paid from the county reassessment fund.

Annual Assessment Adjustments / Agricultural Land Base Rate: Under current law, annual adjustments to real property AVs will begin with March 1, 2005, assessments for taxes payable in 2006. The DLGF has adopted a rule establishing a system for annually adjusting the AV of real property to account for changes in value in those years since a general reassessment of property last took effect.

Under current law, the adjustment system must:

(1) First take effect with 2005 assessments, payable in 2006;
(2) Use objectively verifiable factors used in mass valuation techniques that are reasonably expected to affect the value of real property in Indiana;
(3) Use as many adjustment percentages and whatever categories of percentages the DLGF finds necessary to achieve objectively verifiable, updated, just valuations of real property; and
(4) Prescribe procedures, including computer software programs, that permit the application of the adjustment percentages in an efficient manner by assessing officials.

Under this proposal:

(1) The adjustments would first take effect with 2006 assessments, payable in 2007, a one-year delay.
(2) The base rate for farm land would be set at $880 per acre for taxes paid in 2006 and 2007. After 2007, the base rate would be set annually based on the method used in the current assessment manual, but changing the four year rolling average to six years.
(3) Assessing officials would reevaluate factors that affect value, compute factors, and use mass appraisal techniques to estimate updated values.

(4) There would be no specific requirement concerning the use of a certain number of adjustment percentages or categories.
(5) Computer software programs would not have to be prescribed by the DLGF.
(6) Assessing officials would be required to provide taxpayers with a notice of assessment increase.

The bill would require assessing officials to continue work to satisfy the deadlines contained in the rule. The DLGF would be required to notify county assessors of deadlines for the determination of annual adjustments for assessments in 2006 and for the submission of annual adjustments to the DLGF for review.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). Under the former PTRC law, the additional PTRC and Homestead Credit payments that are attributable to the annual adjustments are estimated at $47.8 M in CY 2006. Absent any other statutory changes, the delay under this proposal could result in state savings of $47.8 M in CY 2006 or $16.09 M in FY 2006 and $31.9 M in FY 2007.

This bill would require the DLGF to review and certify each annual adjustment. The DLGF would also be required to provide training to assessors and county auditors in regard to the verification of sales disclosure forms. These provisions would add to the DLGF's administrative duties. However, the DLGF believes that it can perform these functions with existing resources.

Property Tax Exemptions: If a religious institution files an exemption under certain conditions, the exemption application is subject to review and action by the Department of Local Government Finance (DLGF). This provision should have no significant impact on the DLGF.

Hearings on Appeals of Budgets, Rates, and Levies--Appeal to the DLGF. Under existing law, if (1) an objection petition was filed regarding a budget or levy and (2) the fiscal body of the taxing unit does not change the budget and levy in response to the petition, then a group of 10 or more taxpayers may initiate an appeal to the DLGF against provisions of the budget and tax levy only if 75% or more of the taxpayers on the petition to the DLGF were on the original petition to the local subdivision. This provision eliminates this limitation. It also allows a taxpayer that owns property that represents at least 10% of the taxable AV in a political subdivision to appeal to the DLGF.

It also provides that in the case of a petition to the DLGF, the DLGF must give at least a five-day notice to the first 10 taxpayers whose names appear on the petition of the date, time, and location of the hearing on the objection. The DLGF must also give notice if only one taxpayer, who owns at least 10% of the AV, appeals. After the hearing, the DLGF must consider the testimony and evidence submitted at the hearing, certify its actions, and mail a written determination and statement of findings to the first 10 taxpayers whose names appear on the petition or one taxpayer if the taxpayer owns at least 10% of the AV appeals.

The DLGF may hold the hearing in response to a petition in conjunction with the DLGF's annual hearing of the budget conducted in the county. The bill also provides that the DLGF may hold a local budget hearing only if a notice of the hearing is published by the county auditor at least 10 days before the date of the hearing.

The above provisions could result in more petitions being filed with the DLGF with a consequent increase in administrative costs to the DLGF.

Hearings on Appeals of Budgets, Rates, and Levies--Judicial Review. The bill provides that the first ten taxpayers on the petition or a taxpayer that owns property that represents at least 10% of the taxable AV in a political subdivision may petition for judicial review of the DLGF's final determination. This provision may result in more petitions. However, the Indiana Tax Court should be able to absorb any additional expenses given its existing budget.

School Corporation RDF Loan Repayment: This provision would have no state impact because the state does not pay PTRC on the debt service fund.

Property Tax Abatements. The bill establishes a procedure for resolution and appeal of property tax abatements. The provision applies to ERA deductions for personal property. Under existing law the DLGF has to approve the deduction application. The proposal provides that under certain circumstances if the DLGF has not issued notification by certain deadlines of its determination, the amount of the deduction is the amount allowed in calculating the tax statement issued to the taxpayer. The above provision could reduce administrative expenses for the DLGF. The impact will depend on the number and nature of deduction applications on which the DLGF has not made a determination.

Explanation of State Revenues: *DLGF Takeover of Assessment:* Under the bill, an official who fails to provide information requested by the DLGF or its contractor would commit a Class A misdemeanor. The maximum fine for a Class A misdemeanor is $5,000.

Sales Disclosure Forms: Under current law, the state Assessment Training Fund receives revenue from a portion of the filing fee for each sales disclosure form that is filed. Under this bill, sales disclosure filing requirements, including the filing fee, will apply to property that is exempt from property taxes. Money in the fund is used by the DLGF to cover expenses for training local officials.

Under current law, the fees and distribution by year are as follows:

Prior to CY 2004 AND After CY 2005: Of a $5 total fee, $4 is deposited into the county sales disclosure fund and $1 is deposited into the state Assessment Training Fund.

CY 2004 and CY 2005: Of a $10 total fee, $5 is deposited into the county sales disclosure fund, $4 is deposited into the state General Fund, and $1 is deposited into the state Assessment Training Fund.

Under the bill, the state Assessment Training Fund would be renamed the state Assessment Training *and Administration* Fund. The $10 filing fee would be extended through the end of CY 2011. Beginning on July 1, 2005, all of the state's share ($5) would be deposited into the new fund. The IBTR would be permitted to use part of the money in the new fund to conduct appeals or pay for appeal services.

FY 2004 revenues in the state Assessment Training Fund were $221,888 at $1 per filing. Revenues over the last five years have averaged around $200,000 per year. With the fee is kept at $10 ($4 increase for the state) for the additional six years, then compared with current law, total state revenues would increase by about $800,000 in each year from CY 2006 through CY 2011. Revenue for the state Assessment Training and Administration Fund would increase by about $800,000 per year in FY 2006 through FY 2011 and $400,000 in FY 2012.

Integrated Steel Mill Equipment Property Tax Valuation: The state levies a tax rate for State Fair and State Forestry. The increase in the AV base under this bill would similarly change the property tax revenue for these two funds. The increase would be minimal.

<u>Explanation of Local Expenditures:</u> *General Reassessment:* Under current law, the next general reassessment is scheduled to begin on July 1, 2007 and is to be completed by March 1, 2009 with tax billings first affected in CY 2010. Future reassessments are to be completed every four years after that. This bill calls for this reassessment to begin on July 1, 2009 and to be completed by March 1, 2011, which would first effect tax billings in CY 2012. The state would be put on a five-year reassessment cycle after that.

As real property values are adjusted, the relative tax burden between real and personal property, between different classes of real property, and between properties within the same class also changes. Annual adjustments are meant to update assessed values to reflect market conditions each year. During a general reassessment, physical changes to properties are noted and assessed values are updated to reflect both changes in market conditions and physical changes to the property. If the annual adjustments achieve their goal, then the real impact of the general reassessment would be the assessment of any physical changes to properties that were not picked up in the interim years.

A delay of the general reassessment could delay some assessment updates or corrections to assessments on real property. This delay could cause some part of the tax shift that results from the general reassessment to be delayed. However, in most cases, any resulting tax shifts, or lack thereof, should be minimal.

Under current law, with the DLGF's approval, (1) an individual township assessor or (2) all of the township assessors along with the county assessor, may employ professional appraisers as technical advisors to assist with assessments or a reassessment. This bill would require the DLGF to approve a determination by assessors to not employ a professional appraiser for a general reassessment.

Annual Assessment Adjustments: Under current law, the administration of annual AV adjustments by local assessors is estimated to cost up to $6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some portion, but not all, of the expenses for annual adjustments in CY 2005.

The assessment notice requirement would generate an additional expense for counties. There are approximately three million parcels of real property in the state. At the standard letter rate of 37 cents, postage could amount to $1.1 M per year. There would also be additional printing and stuffing costs associated with the notices.

The cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax. The cost of the local homestead credit will increase under annual adjustments. The increase in CY 2006 under current law is estimated at $3.9 M. The delay under this proposal would result in local homestead credit savings of that amount in CY 2006. The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the savings would be distributed to local civil units.

County Reassessment Fund: Expenditures for making annual adjustments and verification of sales disclosure forms would be paid from the reassessment fund under the bill. The county council would be required to appropriate the necessary funds to pay for employment expenses related to annual adjustments. (County councils must currently appropriate the necessary funds to pay for employment expenses related to general reassessments). Under current law, appropriations from the county reassessment fund may be approved by the county fiscal body only after review by the county assessor. This bill would remove the county assessor's review of these appropriations.

Currently, the DLGF may raise or lower the reassessment fund levy if appropriate because the estimated cost of a general reassessment has changed. This bill also allows the adjustment if the estimated cost of making annual adjustments has changed.

The bill also allows local assessors to petition the county fiscal body to increase the reassessment fund levy to pay the cost of (1) a general reassessment, (2) sales disclosure verification, or (3) processing annual adjustments. If the county fiscal body denies the petition, the assessor may appeal to the DLGF. The DLGF would hear the appeal and determine whether the levy is necessary.

The reassessment fund is subject to the county's maximum permissible levy. This bill does not grant any additional levy authority. Therefore, if the reassessment fund levy is increased under any of the above provisions, the levy of other controlled funds would have to be reduced by a similar amount.

DLGF Takeover of Assessment: A contractor must file with the county auditor a duplicate copy of the bill submitted to the DLGF along with proof of the Department's approval. Upon receipt, the county auditor must immediately certify that the bill is true and correct without further audit, publish the claim, and submit the claim to the county executive. The county executive must allow the claim, as approved by the DLGF, and the county auditor must immediately issue a warrant or check for the full amount of the claim. Payment of the claim is not subject to remonstrance and appeal.

Assessment Registration Notice: Under current law, a property owner that demolishes, modifies, or improves the property at a cost of at least $500 must file a registration notice with the county assessor. This provision would permit the owner to file the notice with the area plan commission. The plan commission would forward a copy of each registration to the county assessor by the 10th of each month. This provision should have no local fiscal impact.

Property Tax Exemptions: This bill provide retroactive property tax exemptions for (1) a youth soccer association, (2) a religious organization, (3) a sorority, and (4) a conservation organization.

<u>Exemption - Youth Soccer Organization</u>: This provision applies to the Zionsville Youth Soccer Association for taxes payable in 2003 and 2004. Other eligible associations, if any, to which the above provisions would apply are unknown. The association may file claims for a refund of property taxes paid that were due in 2003 and 2004. No interest is payable on the refund. The county would have to refund $15,451 for 2003 and $16,054 for 2004, for a total refund of $31,505.

<u>Exemption - Religious Institution</u>: This provision allows a religious institution to file an exemption application (1) before May 11, 2005, for property taxes payable in 2001 and 2002 if the real property was acquired after 1998 and the property was exempt from property tax payable in 2000, and (2) before August 1, 2005, for property taxes payable in 2004 and 2005 if the real property was acquired after 1999 and the property would have been exempt from property taxes payable after 1999 if the exemption was timely filed. The above provisions apply to a church and the church's properties in Indianapolis. Other eligible religious institutions, if any, to which the above provisions would apply are unknown. The church may file a claim for a refund of property taxes, plus paid interest and penalties, for the applicable years. The bill will reduce revenue for Marion County and taxing units located within the taxing district wherein the church property is located by a total of $100,024.

<u>Exemption - Sorority</u>: This provision applies to a nonprofit sorority taxpayer for taxes due in 2003 and 2004

if: (1) The taxpayer was granted an exemption from property taxes due in 2001; (2) The sum total of taxes due in 2003 and 2004 exceeded $60,000; and (3) The taxpayer would have qualified for an exemption in 2003 and 2004 if the owner had timely filed for one. The above provisions apply to one known sorority. Other eligible sororities, if any, to which the above provision would apply are unknown. The sorority may file a claim for a refund of amounts paid toward property taxes that were first due in 2003 and 2004. No interest is payable on the refund amount.

Exemption - Conservation Organization: This provision allows a conservation organization to file an exemption application before August 1, 2005, for property taxes payable in 2001 and 2002 if (1) the organization filed an exemption application under any statute for taxes payable in 2001 and 2002 and (2) the property would have been exempt if the current exemption law regarding conservation organizations had been in effect for taxes paid in 2001 and 2002. The organization may file a claim for a refund of property taxes, plus paid interest and penalties, that were first due in 2001 and 2002. No interest is payable on the refund amount. The bill will reduce revenue for the taxing units located within the taxing district wherein the property is located.

School Corporation RDF Loan Repayment: Under current law, Porter County civil taxing units and school corporations were allowed to take loans from the state Counter-Cyclical and Economic Stability Fund (Rainy Day Fund) after the bankruptcy of Bethlehem Steel. Currently, the Duneland School Corporation has three outstanding loans, each in a principal amount of $4.6 M, totaling $13.8 M, with an eleven-year repayment schedule for each loan. The money used to repay the RDF loans must come from a fund that is subject to the unit’s maximum permissible levy or from any available non-property tax source.

The bill allows the Duneland School Corporation to make the loan payments from the school corporations' debt service fund. The school corporation is currently making debt payments of about $1.2 M per year. The use of the school's debt service fund to make these payments would allow the money from capped funds currently being used to pay the debt to be used for other expenses. This provision would result in a levy increase of about $1.2 M per year.

County Land Valuation Commission. The bill allows the county assessor and the township assessors in the county to vote to abolish the county land valuation commission. This provision could reduce expenditures to local units. The specific impact will depend on local action.

Property Tax Assessment Board of Appeals. The bill provides that the term of a member of the property tax assessment board of appeals is one year. Current terms expire December 31, 2005. This provision is not expected to have an impact.

Property Tax Abatements. The bill establishes a procedure for resolution and appeal of property tax abatements. The proposal provides that with respect to an application filed to claim a deduction for new manufacturing equipment or new research and development equipment for an assessment date in 2003, if the DLGF has not issued notification before June 1, 2005, of its determination, the amount of the deduction is the amount allowed in calculating the tax statement issued to the taxpayer. The taxpayer or the county auditor may appeal the amount of the abatement. With respect to a deduction claimed for new manufacturing equipment or new research and development equipment for an assessment date in 2004; or new manufacturing equipment, new research and development equipment, new logistical distribution equipment, or new information technology equipment for an assessment date in 2005; the amount of the deduction is the amount on the tax statement. The property owner may appeal the amount by filing an appeal and requesting a preliminary conference with the county auditor. The bill specifies appeal procedures. The county auditor must mail a notice to each property owner who has filed a deduction application advising the property owner of the above provisions. The above provision will increase administrative expenses for the local units. The impact will depend on the number and nature of deduction applications.

Explanation of Local Revenues: *Annual Assessment Adjustments:* Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year. Total local revenues would not be affected.

DLGF Takeover of Assessment: If county funds are insufficient to pay for an assessment or reassessment, the DLGF may increase the tax rate and tax levy of the county to pay the cost and expenses related to the assessment or reassessment.

If the county fails to pay the contractor, the Treasurer of State will pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund or distributions of admissions taxes or wagering taxes.

Sales Disclosure Forms: With the $10 filing fee extended through the end of CY 2011, revenues in the county sales disclosure fund would increase by about $200,000 in each year from CY 2006 through CY 2011.

PTRF Funds Withheld: This bill would require the state to withhold a percentage (as determined by the Department of Revenue) of PTRC and homestead credits payments if:

1. The county assessor fails to forward sales disclosure forms to the DLGF in a timely manner;
2. Local assessors have not forwarded *Form 15* assessment information to the DLGF in a timely manner;
3. The county auditor fails to pay a contractor's bill under state-conducted assessment or reassessment;
4. Local assessors have not transmitted parcel level assessment data to the DLGF by October 1;
5. The county has not established a parcel number indexing system in a timely manner; or
6. A township or county official has not provided other required information to the DLGF in a timely manner.

Integrated Steel Mill Equipment Property Tax Valuation: Under current law and DLGF rules, business personal property, except for integrated steel mill and oil refinery equipment is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools," depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

Integrated steel mill and oil refinery/petrochemical equipment may be valued under a fifth pool depreciation schedule. The value of property in this pool is not subject to the 30% floor. Taxpayers who choose to use pool five depreciation may not make any adjustments for abnormal obsolescence. A taxpayer may use Pool 5 to value all of their property if at least 50% of the taxpayer's total property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

Under current law, an integrated steel mill is defined as a producer of steel by processing raw materials in a blast furnace. Beginning with taxes paid in CY 2005, this bill would require that the blast furnace be located in Indiana to meet the definition and in order for a taxpayer to use Pool 5 depreciation.

There is currently at least one taxpayer, in Spencer County, that has its blast furnace in another state but used Pool 5 depreciation for its Indiana property. This taxpayer is located in a tax increment financing (TIF) district and currently receives an abatement on its personal property. The TIF was structured so that (1) 10% of the taxpayer's AV is not tiffed, and (2) the taxpayer is responsible for making payments to the redevelopment commission if the TIF proceeds in a year are insufficient to meet annual debt repayment obligations.

According to the county, through its consultant, the taxpayer's total net AV would increase by $9.7 M for taxes paid in CY2005, $58.7 M in CY 2006, and $117.8 in CY 2007 if the use of Pool 5 is disallowed.

10% of the increased AV would be added to the tax base of all of the units that service the taxing district where the property is located. The rest would be tiffed. The addition of AV to the tax base would reduce the tax rate by about $0.0035 in CY 2005, $0.0200 in CY 2006, and $0.0390 in CY 2007. The resulting gross tax shift from all taxpayers to the steel taxpayer is estimated at $17,000 in CY 2005, $100,000 in CY 2006, and $200,000 in CY 2007.

The new tax rate would be applied to the revised tiffed AV to produce the TIF proceeds. Gross TIF proceeds would increase by an estimated $175,000 in CY 2005, $1.0 M in CY 2006, and $2.1 M in CY 2007. The taxpayer's debt guarantee payments would be reduced by this amount. The taxpayer made guarantee payments equal to $2.2 M in CY 2003 and $1.2 M in CY 2004. So far, in CY 2005, the taxpayer has made $250,668 in guarantee payments. This amount is more than the 1st of two 2004 payments. The 1st 2004 payment was $221,781.

Total local property tax revenues, except for cumulative funds, would not be affected by this proposal. Cumulative fund revenue would rise by an estimated $2,500 in CY 2005, $15,000 in CY 2006, and $30,000 in CY 2007.

Hearings on Appeals of Budgets, Rates, and Levies--Local Budgets. Consideration of additional petitions on local budgets could result in a change in local levies. If a local unit's levy changes, the unit's share of the total amount of local option income tax revenue in the county and the amount of COIT that is used for local homestead credits (in counties that provide these credits) could also change. The overall impact, however, is indeterminable.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue; State Budget Agency; State Treasurer; State Auditor; Department of Administration; Attorney General; State Fair Board; Department of Natural Resources.

Local Agencies Affected: Local assessors; County Land Valuation Commissions; County auditors; Counties; Local taxing units; Spencer County Assessor, Auditor, and Redevelopment Commission; Duneland School Corporation in Porter County.

Information Sources: Dan Mathis, DLGF, 232-3777; Fiscal analysis on administrative rule #02-0297 (50 IAC 21); Zionsville Youth Soccer Association; Minister Murray, International Light; Local Government Database; Property tax return data; H.J. Umbaugh for Spencer County.

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